PROSPECTUS

41,000 SHARES

THE NATIONAL TOOL COMPANY

(An Ohio Corporation)

Common Stock $1 Par Value

October 18, 1939.

Transfer Agent:
The Company
11200 Madison Ave.,
Cleveland, Ohio

Registrar:
Central National Bank
of Cleveland
320 Euclid Ave.,
Cleveland, Ohio

These securities have not been registered with the Securities and Exchange Commission because such securities are believed to be exempted from registration. But such exemption, if available, in no sense indicates approval by the Commission of the merits of these securities.

INITIAL OFFERING PRICE

$2.35 Per Share

When, as, and if, received by, or made available to, the Underwriter.

LOEWI & CO.
(A Wisconsin Corporation)
225 East Mason Street
Milwaukee, Wisconsin

This stock is offered as a speculation; and this prospectus should be read in its entirety before any purchase of this stock.

TO FACILITATE THE OFFERING, IT IS INTENDED TO STABILIZE THE PRICE OF THE STOCK OFFERED HEREUNDER. THIS STATEMENT IS NOT AN ASSURANCE THAT THE PRICE OF THE SAID SECURITY WILL BE STABILIZED OR THAT THE STABILIZING, IF COMMENCED, MAY NOT BE DISCONTINUED AT ANY TIME.

SHARES PURCHASED, IN CONNECTION WITH THE STABILIZATION REFERRED TO ABOVE, MAY BE OFFERED UNDER THIS PROSPECTUS; BUT THE PROCEEDS OF THE SALE OF SHARES SO PURCHASED AND OFFERED WILL NOT INURE TO THE BENEFIT OF THE NATIONAL TOOL COMPANY.

NO DEALER, SALESMAN OR OTHER PERSON IS AUTHORIZED BY THE COMPANY OR BY ANY UNDERWRITER IN CONNECTION WITH THIS OFFERING TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS, OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND NO PERSON IS ENTITLED TO RELY UPON ANY INFORMATION OR ANY REPRESENTATIONS NOT CONTAINED HEREIN.

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFERING BY ANY UNDERWRITER OR DEALER IN ANY STATE IN WHICH SAID UNDERWRITER OR DEALER IS NOT QUALIFIED TO ACT AS DEALER OR BROKER, OR IN ANY STATE IN WHICH SAID STOCK MAY NOT BE LEGALLY SOLD UNDER THE SO-CALLED BLUE SKY LAWS OF SUCH STATE.

THE NATIONAL TOOL COMPANY

History

The National Tool Company, hereinafter sometimes called the "Company", was incorporated on July 20, 1937, under the General Corporation Act of Ohio. On the same date, pursuant to a Plan of Reorganization, confirmed on June 19, 1937, by United States District Court for the Northern District of Ohio, Eastern Division, it acquired all the assets and assumed all the liabilities of a predecessor Company, of the same name, incorporated in Ohio, December 22, 1916. The business conducted by the Company is substantially the same as the business in which predecessors under the same name have been engaged since 1905.

Business

The Company manufactures and sells a full line of standard and special metal cutting tools, including: milling cutters, slitting saws, reamers, counter-bores, ground and unground hobs, gear shaper cutters for generating spur, helical and herringbone gears used in automotive and allied industries, and surface broaching tools of the latest design for rapid and accurate machining of automobile parts. These tools are produced from special steel alloys, and are marketed under the name, "National-Cleveland".

Another important group of products manufactured by the company is a line of inserted blade tools, such as face mills, channel mills, straddle mills and side mills widely used throughout the metal working industry.

Still another line of manufacture includes tools designed by the company's engineers to meet the special requirements of the company's customers.

Recently the company has completed manufacturing facilities for the production of carboloy tipped tools, which are rapidly finding favor in the trade for certain metal cutting jobs, thus maintaining its policy of keeping abreast of the latest developments in the industry.

Patents and Licenses

During the last two years, less than 2% of the Company's dollar sales volume has been manufactured under licenses from patentees, or so-called shop-rights. The Company manufactures certain products under its own patents, and applications for patents, but, in the opinion of the management, technical skill and special knowledge and training in fabricating, and heat-treating materials used, exceeds the value of patent protection.

Heat-treating, or tempering steel, is perhaps the most important factor in producing superior tools. The Company, during the past two years, has introduced in its plant what it regards as the most advanced type of heat-treating equipment. An evidence of its advantages in this line is the fact that other companies are sending tools, dies and other steel products to the Company to be heat-treated, thereby providing an increasing additional income.

The Company has initiated arrangements for the acquisition of a license to manufacture and sell a patented rock drill for which, it is believed, there should be a substantial demand from the oil well drilling industry. In view of the large volume of rock drills used in the United States, if the Company should obtain even a relatively small portion of this business it would add materially to its income. It is expected that a license agreement will be executed shortly, on settlement of remaining incidental details, all basic factors having already been agreed upon.

Metal Cutting Tool Industry

Metal cutting tools, or cutters, are attachments, required in the operation of all metal cutting machines. Such machines by means of these tools cut and shape of metals, producing various forms and devices employed in the mechanical arts. Moreover, large production concentrated in individual plants has brought about the development of highly specialized machines capable of producing great quantities of metal parts. These machines cannot operate without cutting tools.

For example, the teeth of gears may be cut by the gear shaping machine, which requires a cutter similar in form and characteristics to the gear itself. The National Tool Company is one of four in the United States qualified to manufacture these cutters, known as gear shaper cutters. Likewise, the gear hobbing machine requires a cylindrical cutter with a number of teeth arranged in a spiral, called a hob. These, too, The National Tool Company manufactures in large quantities.

Milling machines require cutters of various sizes and shapes, which may cut a slot or form in a piece of metal or may smooth one or more faces. Other metal cutting machines require reamers for sizing holes, counterbores, broaches for producing flat surfaces such as cylinder blocks, pumps and other similar forms. The cutter, therefore, is the prerequisite of all metal cutting machines. The National Tool Company is equipped to manufacture practically all of the large variety of cutters used in the mechanical industries.

Metal cutting tools are made of fine and expensive grades of steel, and are hardened and ground to very accurate shapes and dimensions. When in use, they require frequent grinding or sharpening. They wear out and must be replaced. The cost of metal cutting tools used up during the life of a metal cutting machine usually exceeds the original cost of the machine itself.

Precision and accuracy are prime essentials in the manufacture of metal cutting tools. The development of machines for the accurate grinding and measuring of these cutters and a high degree of technical skill have given The National Tool Company a prominent position among manufacturers of metal cutting tools in this country.

Markets

About 90% of the Company's products have been sold direct during the last two years to about 1500 users of metal cutting tools, and about 10% to the jobbing trade. During this period no one customer has purchased more than about 26% of the Company's products, and during the last six months sales made to the Company's 10 largest customers have amounted to only about 52% of the Company's business. Numerous industries are represented among the direct customers of the company, as its type of product is essential in the manufacture of the moving parts in all types of machinery. Among the more important customers are therefore found prominent manufacturers of automobiles, trucks, tractors, locomotives, steam shovels, electrical machinery, oil drilling equipment, gears, machine tools and agricultural machinery. Automobile, agricultural machinery and gear manufacturers rank most prominently on the list of the Company's customers.

A factor favorably affecting the business of the Company is the normally large replacement demand for its principal products, and particularly for its special items. Moreover, of importance to the Company, at this time, is the fact that metal cutting tools are required in the manufacture of all kinds of mechanical munitions of war. Irrespective of any demand occasioned by the manufacture of munitions, American industry now has an opportunity to meet the normal needs of nations who have been trading with countries now at war, but who can no longer be served by them. This increased demand for goods of all kinds is already being reflected in a demand for more and better machine tools, and in the steady and substantial increase in orders which this Company has received during the past five months.

The management of the Company has recently made arrangements for a direct factory representative in New York to cover foreign markets through the various export concerns.

During the past two years the sales department has been fundamentally reorganized with the view of establishing aggressive and widespread sales effort. Almost exclusively, distribution of the Company's products is effected by direct sales representatives of the Company. In connection with its sales program the Company has subdivided the United States into sales districts and maintains sales representatives in the following industrial centers: Hartford, Conn.; New York City; Syracuse, N. Y.; Buffalo, N. Y.; Philadelphia, Pa.; Pittsburgh, Pa.; Dayton, Ohio; Cleveland, Ohio; Toledo, Ohio; Detroit, Michigan; Indianapolis, Ind.; Chicago, Ill.; Milwaukee, Wisc.; Minneapolis, Minn.; Moline, Ill.; Houston, Texas; Gastonia, N. C.; and San Francisco, California.

Labor

The Company, depending upon its rate of operation, employs between 150 and 300 persons, of whom a large proportion are experienced machine operators. The Company and its predecessors have never had any strikes, threatened strikes, or similar labor difficulties. The employees had a company union until the Wagner Labor Act was upheld by the Supreme Court. At that time the management offered the employees an opportunity to hold an election, to determine the type of union which they wished to have represent them. The employees voted in favor of their own independent organization, which, accordingly, was established by them.

Plant and Property

The Company's plant is located on approximately three acres of land, owned in fee and not subject to any mortgage, at 11200 Madison Avenue, Cleveland, Ohio. It consists of ten units, with total floor space of approximately 69,000 square feet. The replacement and sound values of the land, buildings and equipment of the Company, as appraised by independent appraisers, as of May 31, 1937, amount to: replacement value, $1,477,037.76, including patterns and drawing valued at $249,948.50; sound value, $730,110.03, including patterns and drawing valued at $129,711.75. Since the date of this appraisal, additional capital expenditures in the amount of $146,786.05 have been made. The above land, buildings and equipment however, are carried on the books of the Company, as of August 31, 1939, at a depreciated figure of $283,159.89.

It has been the policy of the Company to depreciate buildings at the rate of 2½% per annum, and machinery, furniture and fixtures at the rate of 8% per annum.

Management

The following are the directors and officers of the Company:

A. J. Brandt	*Director, President, and Chief Executive Officer*
S. J. Kornhauser	*Director and Secretary.*
L. F. Jubenville	*Director*
F. J. Young	*Director*
L. A. Schmidt	*Vice President, in charge of Engineering*
Paul F. Zerkle	*Vice President in charge of Sales*
L. M. Prosser	*Treasurer, and Chief Financial and Accounting Officer*
L. M. Shafer	*Assistant Secretary and Assistant Treasurer*

A. J. Brandt, who is 51 years of age, has for many years been a consulting industrial engineer. He became associated with the predecessor company in April 1936, was elected President of the present Company in February 1937 and is now its largest stockholder. He has had a long and successful record in the reorganization and rehabilitation of industrial enterprises, in the layout and operation of new plants, and in general consulting service. He was for 12 years connected with The E. I. DuPont de Nemours & Co. and various divisions of the General Motors Corporation. He was Vice-President in charge of operations when the first Pontiac automobile was built, and directed the building, equipping and start of operation of the present Pontiac automobile factory. In 1928, he organized his consulting and management engineering service as A. J. Brandt Co., Detroit, Michigan, of which he is the senior partner. The corporations served by his organization since 1928 include, among others, the United States Rubber Company; the Parker Pen Company; International Harvester Company; American Locomotive Company; American Car & Foundry Company; Austin Motor Co., Ltd., Birmingham, England; Pirelli Rubber Company, Milan, Italy. Mr. Brandt also layed out and equipped a large truck factory for the Soviet Government at Moscow, Russia, in 1929.

S. J. Kornhauser is a practicing lawyer in Cleveland, Ohio, and has been connected with the Company, and its predecessors since 1916, as secretary, director and general counsel.

F. J. Young is President of F. J. Young & Co., Inc., Investment Securities, New York, N. Y.

L. M. Prosser has been an industrial accountant for twenty-two years, most of the time with General Motors Corporation, and later with the United States Rubber Company, until 1933. He then became associated with A. R. Glancy, Inc., with which he continued until joining the old National Tool Company on April 1, 1936.

Mr. Jubenville is an industrial analyst and accountant of wide experience, connected with A. J. Brandt Company, Detroit, Michigan.

Mr. Schmidt, Chief Engineer, has been connected with the Company since June 1, 1937, and was formerly associated with F. I. A. T. of Turin, Italy, and Poughkeepsie, N. Y., in a similar capacity.

Mr. Zerkle joined the management staff on July 15, 1939, as Vice President in Charge of Sales. He has been continuously employed in various capacities associated with the tool industry by Buick Motor Company, Mid-West Tool Company and The Murchy Machine Tool Company for the past twenty-two years. He brings to the Company a wide acquaintance and a successful selling record in the cutting tool trade.

Mr. Shafer has been connected with the company and its predecessor in its Accounting Department since March, 1922.

Employment Contracts

There are no contracts with executives or employees, except an employment contract between the Company and Mr. Brandt, extending his services as General Manager of the Company for three years from January 1st, 1940, at an annual salary of $12,000.00, or such larger sum as the Board of Directors may determine. Mr. Brandt's life is also insured for the benefit of the Company in the amount of $100,000.00. No other officer or director has received during the current and past fiscal year or is expected to receive during the next fiscal year more than $9,000.00.

Capitalization

The capitalization of the Company, as of August 31, 1939, was as follows:

Title of Issue	Authorized	Outstanding
Convertible 6% Sinking Fund Debentures with Warrants, due Aug. 1, 1942	$200,000	$200,000
Common Stock, Par value $1.00 per share	600,000 shs.*	161,929

*Of this total, the shares remaining authorized but unissued comprise the following:—

			Shares
(A)	Reserved for conversion of the Debentures		80,000
(B)	Reserved for exercise of Common Stock Purchase Warrants Attached to the Debentures at $5.00 per share.		10,000
(C)	Reserved for option at $2.50 per share for five years from July 19, 1937 (maximum) to the following:		
(1)	F. J. Young & Co., Inc.	18,000	
(2)	C. B. Ewart & Co., Inc.	9,000	
(3)	A. J. Brandt	4,000	31,000
	Note: Options included in (1) and (2) above were given for underwriting services. Options covered by (3) were given for taking up called options of C. B. Ewart & Co., Inc.		
(D)	Reserved for issuance to employees on completion of payments on subscriptions at $2.50 per share, maximum subscriptions outstanding		630
(E)	Reserved for exchange of predecessor company stock for Common Stock of this Company		1,442
(F)	Reserved for the offering hereunder		41,000
(G)	Reserved for options to be outstanding upon completion of this financing		10,000
		Total	174,072

Common Stock

The Common Stock of the Company has a par value of $1.00 per share. The Common Stock has sole voting power at the rate of one vote for each share, but is entitled to no preemptive rights. No dividend has been declared on the now outstanding stock, and there is no dividend rate.

All the issued and outstanding stock is fully paid and none assessable. 33,880 shares were issued in exchange for the Preferred Stock and 25,188 shares were issued in exchange for Common Stock of the predecessor Company; 94,431 shares were issued for cash at the rate of between $2.00 and $2.50 per share; and approximately 8,500 shares were issued at the rate of $2.50 per share to a group of 24 officers in lieu of part of their respective salaries.

Earnings Record of Company

Audited statements show that there was a net loss (after provisions for amortization of debenture discount on a five year basis, interest at rate of 6% per annum, upon $200,000.00 principal amount of said debentures, all taxes, and setting-up reserves for depreciation) for the first five months of the Company's existence, ending December 31, 1937, of $4,673.51, for the fiscal year ending December 31, 1938, of $145,246.31; and for the eight months period ending August 31, 1939 of $30,882.32. Company figures show a net profit (after provisions for amortization of debentures discount on a five year basis, interest at the rate of 6% per annum on $200,000 principal amount of said debentures, all taxes, and setting up reserves for depreciation) for the month of August, 1939, of $10,838.02, of which approximately $5,742.58 should be considered as nonrecurring.

Convertible 6% Sinking Fund Debentures

(With Non-detachable Common Stock Purchase Warrants Attached)

These Debentures, aggregating a principal amount of $200,000, are unsecured obligations of the Company, and are issued under a Trust Indenture dated as of August 1, 1937, between the Company and Central National Bank of Cleveland, Ohio, as Trustee. Said Debentures are dated August 1, 1937, mature August 1, 1942 and bear interest at the rate of six per cent (6%) per annum, payable semi-annually February 1 and August 1 at the office of the Trustee. The Debentures are issued in coupon form in $1,000 denominations, registerable as to principal only.

The following is a brief general summary of certain of the terms and provisions of the Debentures, the attached Warrants and the Indenture:

Conversion Rights: The Debentures are convertible at the option of the holder at their principal amount, at any time prior to maturity or, in the case of Debentures called for redemption, at any time up to and including the fifteenth day prior to the date fixed for redemption, into Common Stock of the Company at the rate of $2.50 per share (viz., 400 shares of Common Stock for each $1,000 principal amount of Debentures), the conversion price being, however, subject to adjustment from time to time in certain cases. The Indenture contains provisions designed to protect the conversion privilege against dilution in certain events. Adjustments for interest on Debentures converted and dividends upon shares, issued upon conversion thereof will be made upon such conversion. In lieu of any fractional share resulting from the application of any then prevailing conversion price, the Company may pay therefor in cash at said conversion price.

Common Stock Purchase Warrants: Each Debenture has attached thereto a Warrant, void if detached therefrom, granting to the holder the option to purchase as a unit 50 shares of Common Stock at a price of $5 per share, at any time prior to the date of maturity or, in case the attached Debenture is called for redemption, to and including the fifteenth day prior to the date fixed for such redemption. The Indenture contains provisions for the adjustment in certain events, of the purchase price of such Common Stock, and also contains provisions designed to protect the purchase privilege against dilution in certain events. The purchase right evidenced by the Warrant may be exercised only as an entirety, that is to say, the holder must purchase the full number of shares called for thereby.

Redemption: The Debentures are redeemable, at the option of the Company, or through the sinking fund, as a whole or in part (by lot) at any time, at the following percentages of the principal amount thereof: 102½% to and including August 1, 1938; 102% thereafter to and including August 1, 1939; 101½% thereafter to and including August 1, 1940; 101% thereafter to and including August 1, 1941; and 100½% thereafter and prior to maturity; together in each case with interest accrued thereon to the date fixed for redemption, upon at least 45 days prior notice.

Sinking Fund: On April 1 in each year beginning April 1, 1939, the Company shall pay into sinking fund for the purchase and/or redemption of Debentures, a sum equal to 20% of net earnings for the preceding calendar year (as defined in the Indenture). In lieu of cash, the Company may make any sinking fund payment in Debentures, taken at actual cost but at not exceeding the then current redemption price. The Company shall also be entitled to a credit, against the required sinking fund payments, of an amount equal to the aggregate principal amount of De-

bentures converted into Common Stock. The Company may anticipate any or all of the sinking fund payments.

Tax Refund Provisions: The Company agrees to reimburse to the owners of the Debentures resident in the state of Pennsylvania any personal property or similar tax not exceeding 8 mills per annum on each dollar of the principal amount; and to owners resident in the state of Ohio any personal property or simliar tax not exceeding 5% per annum of the interest thereon.

Certain Covenants: The Indenture provides that, so long as any of the Debentures are outstanding, the Company will not create, issue, assume or guarantee any funded indebtedness (as defined below) or any obligation secured by mortgage, pledge or other lien or encumbrance upon any assets then owned by the Company except as hereinafter permitted, unless effective provision shall be made in the instrument creating such funded indebtedness, mortgage, pledge, lien or other encumbrance whereby all the Debentures then outstanding shall be directly secured by a lien superior to such new obligations so created. The foregoing restrictions, however, are not to apply to (1) obligations secured by purchase money mortgages or liens on property acquired by the Company after the date of the Indenture, (2) obligations secured by mortgages or liens upon property acquired by the Company after the date of the Indenture and assumed in connection with such acquisition, (3) obligations issued for the purpose of refunding an equal principal amount of outstanding obligations secured by mortgage or lien on any assets of the Company, or (4) obligations for current loans in the ordinary course of business and maturing not more than one year from the date thereof and secured by the pledge of current assets. The term "funded indebtedness" is defined in the Indenture to mean all indebtedness, which by its terms matures more than one year from the date thereof, or which, regardless of its maturity date, is secured by mortgage or deed of trust or is outstanding under any Trust Indenture or Trust Agreement; and all obligations assumed or guaranteed by the Company are to be considered indebtedness of the Company. The Indenture does not permit the issuance of additional funded debt thereunder.

Use of Proceeds

The Company intends to use the proceeds of the present financing, when received, to retire a bank loan originally of $30,000, for equipment and working capital, and now in the amount of $17,500, and the balance for working capital and general corporate purposes.

Audits and Reports To Stockholders

The Company proposes to cause an audit to be made of its books by an independent certified public accountant at least annually (which audit or a fair condensation thereof will be made available to its stockholders,) summarizing the previous year's operations and including a balance sheet as of the end of the period covered by the report, together with a statement of profit and loss for such period.

Legality Of Issuance

Mr. S. J. Kornhauser, of 802 Keith Building, Cleveland, Ohio, counsel to the Company, has passed upon the legality of the Securities to which this Prospectus relates.

Litigation

There are only three actions pending against the Company. These involve alleged violations of patents, and, in the opinion of counsel for the Company, the total monetary liability of the Company does not exceed $5,000.

Underwriting Arrangements

The Company has entered into an Underwriting Agreement, dated September 18, 1939, with Loewi & Co., a Wisconsin corporation, hereinafter sometimes called the "Underwriter" which is not controlled by, does not control, and is not under common control with the Company. By the terms of this agreement, the Company gives the Underwriter the exclusive right to purchase from the Company, or find purchasers for, all or any part of 41,000 shares of its now authorized but unissued Common Stock, at a price to net the Company $2 per share, but no more, for a period commencing as of the date of this agreement and extending for ninety (90) days after said 41,000 shares of said Common Stock shall have been qualified for sale to the public under

the laws of both the states of Ohio and Wisconsin, and the Underwriter agrees to use its best efforts to find purchasers for said shares as provided above. In no event shall the right of the Underwriter to purchase these shares extend beyond 90 days after March 1st, 1940. The Underwriter further agrees that it will offer said shares in such manner that the aggregate offering will not exceed $96,350, or $2.35 per share.

When the Underwriter shall have paid or caused to be paid to the Company, a total of $82,000 for the common stock which is the subject of this offering, the Company agrees to give to the Underwriter an option to purchase all or any part of 10,000 shares of the authorized but unissued common stock of the Company, at a price of $2.50 per share, at any time or from time to time during a period of three years from the 2nd day of January, 1940, and at a price of $3.00 per share at any time or from time to time during a period of three years from the 2nd day of January, 1943. Said options are subject to provisions designed to protect them against the dilution of said common stock in certain instances. The Underwriter has no present intentions with respect to offering to the public the stock covered by these options.

During the period within which the Underwriter shall have the exclusive right to sell all or any part of the 41,000 shares of Common Stock which are the subject of this agreement, the Company, without the consent of the Underwriter, will not sell, or contract to sell, any of its Common Stock to anyone except the Underwriter or purchasers procured by the Underwriter. Furthermore, the Company has agreed to give the Underwriter a "first refusal" with respect to the marketing of any future issues of stock or other securities of the Company, for a period of five years from the date of said Underwriting Agreement.

The Company, upon completion of this financing, will use its best efforts to elect two nominees of the Underwriter to its Board of Directors, the number of which is now fixed at nine. Said nominees shall be satisfactory to Mr. A. J. Brandt or his successor as President of the Company; but neither Mr. Brandt, nor any successor, shall unreasonably withhold an approval of any nominees of the Underwriter.

The Company will give consideration to a plan for refunding its outstanding convertible 6% Sinking Fund Debentures, and will give the Underwriter a "first refusal" with respect to the public marketing of any stock or securities in connection with said plan, provided it meets the best bona fide offer obtained by the Company from any other reputable and responsible dealer in securities. If such plan should include a further issue of Common Stock, it is the intention of the Company to apply to register said stock under the Securities Act of 1933. But to date the Company has no plan in mind, and has entered into no negotiations with respect to such a plan.

Unless otherwise authorized in writing by the Underwriter, the Company will apply the proceeds received by the exercise of any now outstanding options to purchase the Common Stock of the Company at the rate of $2.50 a share, to the retirement of the Company's said Convertible 6% Sinking Fund Debentures.

The Underwriter may organize a Selling Group, or Groups, of which it may be a member; or it may otherwise arrange for assistance of dealers in the marketing of said shares, and, in connection therewith may pay such discounts or commissions as the Underwriter may deem proper up to a maximum of 35 cents per share. Except as stated above, it is not proposed to offer any of the said stock to any persons, or classes of persons, at prices varying from the prices at which it is proposed to offer it to the public. This offering is made subject to prior sale, and subject to the right of the Underwriter to reject, in whole or in part, any subscription, and to confirm more or less than 41,000 shares of said Common stock and terminate the offering. (See page 2, above.) The Underwriter also may buy or sell, as principal, broker or agent, for long or short account, in the open market or otherwise, any of the Common Stock of the Company. The Underwriter, therefore, may be the largest factor in making a market for this stock, which is now traded over the counter in Cleveland, New York and elsewhere.

Miscellaneous

The Company is qualified to do business in the State of Ohio. It's principal office is located at 11200 Madison Avenue, Cleveland, Ohio, and annual meetings of stockholders will be held at that address. The Company is not the subsidiary of any corporation, and has no subsidiaries and no affiliates. The Company believes that it has no "promoters" within the meaning of the Securities Act of 1933.

The National Tool Company,
Cleveland, Ohio.

We have made an examination of the balance sheet of THE NATIONAL TOOL COMPANY as at August 31, 1939, and of the statements of profit and loss and surplus for the eight months ended at that date. In connection therewith, we examined or tested accounting records of the Company and other supporting evidence, and obtained information and explanations from officers and employees of the Company; we also made a general review of the accounting methods and of the operating and income accounts for the eight months, but we did not make a detailed audit of the transactions.

Inventories of finished products, work in process, raw materials of steel stock and forgings, manufacturing supplies and scrap steel are included in the accompanying balance sheet at August 31, 1939, balances, as shown by inventory control accounts maintained in the Company's general ledger, no physical inventory having been taken since December 31, 1938. Tests made by us of entries through the control accounts or other data indicated that raw steel stock, work in process and finished cutting tools control accounts were maintained at standard costs which approximated actual costs during the periods in which these inventories were acquired. Inventories of forgings and manufacturing supplies were found to be priced at cost. A special worm gear generating machine manufactured for sale and scrap steel were priced at estimated market which, in regard to the machine, was less than cost. A reserve of $9,167.33 was provided in prior periods for slow-moving and obsolete inventories. We made tests of the basis of inventory pricing but we did not test quantities.

Deferred charges represent items to be absorbed in future operations, consistent with the Company's past policy. Tool costs are charged to operations at the rate of one-twelfth of the deferred balance each month, except for rock bit tools which, together with the deferred development expense of rock bit cutters, are amortized at specified amounts for each rock bit sold.

Convertible 6% sinking fund debentures are convertible into common stock of the Company at the rate of 400 shares of stock for each $1,000.00 principal amount of debentures. Stock purchase warrants attached to each $1,000.00 principal amount of debentures carry the right to purchase as a unit 50 shares of common stock at $5.00 a share. Sinking fund provisions require that, beginning April 1, 1939, an annual payment shall be made equal to 20% of the net earnings of the Company for the preceding calendar year.

The President of the Company has informed us that no material liability is anticipated in connection with pending patent litigation and that the Company is not involved in any other lawsuits.

In our opinion, based upon our examination, the accompanying balance sheet and related statements of profit and loss and surplus fairly present the position of the Company at August 31, 1939, and the results of its operations for the eight months ended at that date. Further, it is our opinion that the statements have been prepared in accordance with accepted principles of accounting and on a basis consistent with the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
September 19, 1939

Balance Sheet
THE NATIONAL TOOL COMPANY
August 31, 1939

ASSETS

Current Assets			
Cash:			
Demand deposits	$ 9,321.28		
Office working fund	239.37	$ 9,560.65	
Accounts receivable:			
Trade accounts	$ 65,327.21		
Less reserve	4,070.78	61,256.43	
Inventories at lower of estimated cost or market:			
Finished products:			
Cutting tools	$ 22,478.62		
Machine	8,500.00	$ 30,978.62	
Work in process		26,685.44	
Raw materials:			
Steel stock	$ 31,701.08		
Forgings	17,612.02	49,313.10	
Manufacturing supplies		12,385.15	
Scrap steel		1,520.08	
		$120,882.39	
Less reserve for slow-moving and obsolete items		9,167.33	111,715.06	$182,532.14
Investments and Other Assets			
Investments:			
L. G. S. Tools, Inc.—500 shares preferred stock and 5,000 shares common stock at cost	$ 5,000.00		
S. A. Andre Citroen—3¼% debentures and profit-sharing certificates—approximate market price	246.85	$ 5,246.85	
Deposits and miscellaneous receivables		4,421.98	
Advances to employees		1,829.41	
Cash surrender value of life insurance	$ 5,951.57		
Less policy loan and accrued interest	5,738.28	213.29	11,711.53
Property, Plant and Equipment			
Cost less reserves for depreciation			
Land		$ 39,103.98	
Buildings	$174,502.49		
Machinery, equipment, etc.	318,323.25	$492,825.74	
Less reserves for depreciation		266,819.57	226,006.17	
Appropriations in process			18,049.74	283,159.89
Good Will, Patents, Etc.—nominal amount				1.00
Deferred Charges			
Deferred tool expense:			
Regular tools	$ 5,746.89		
Rock bit tools	6,314.61	$ 12,061.50	
Unamortized bond discount and expense		8,935.33	
Deferred development expense		5,996.46	
Prepaid taxes, interest, etc.		5,727.07	
Unexpired insurance premiums		2,283.83	
Deferred financing expense		2,200.00	37,204.19
			$514,608.75

LIABILITIES, CAPITAL STOCK AND SURPLUS

Current Liabilities			
Note payable—to bank		$ 17,500.00	
Accounts payable:			
Trade accounts	$ 58,930.25		
Wages and commissions	15,649.91		
Pay roll taxes	3,486.19		
Officer	1,955.14	80,021.49	
Accrued:			
Local taxes	$ 8,026.99		
Federal capital stock tax	1,400.00		
Interest	1,000.00		
Royalties, water rent, etc.	478.59	10,905.58	$108,427.07
Funded Debt			
Convertible 6% sinking fund debentures (with warrants attached) maturing August 1, 1942			200,000.00
Payments On Stock Subscriptions			
Employees			1,430.69
Reserve			
For contingencies			2,835.00
Capital Stock and Surplus			
Capital stock—Note A:			
Common—par value $1.00 a share:			
Authorized 600,000 shares:			
Outstanding 161,929 shares	$161,929.00		
Reserved for exchange of preferred and common shares of predecessor company 1,442 shares	1,442.00		
163,371 shares		$163,371.00	
Surplus:			
Capital surplus	$219,347.13		
Earned surplus (deficit)	180,802.14*	38,544.99	201,915.99
*Indicate red figures.			
			$514,608.75

Note A—In addition to capital stock set forth as outstanding or reserved in the above statement, the Company has reserved at August 31, 1939, 121,630 shares for the following purposes:

Optioned to underwriters under certain conditions at $2.50 a share	27,000 shares
Optioned to A. J. Brandt at $2.50 a share	4,000 shares
Reserved for conversion of debentures	80,000 shares
Reserved for conversion of stock warrants attached to debentures	10,000 shares
Reserved for issuance to employees under stock purchase agreements	630 shares
	121,630 shares

Surplus Account
THE NATIONAL TOOL COMPANY
Eight months ended August 31, 1939

CAPITAL SURPLUS

Balance at January 1, 1939		$202,092.20
Add:		
Premium on 9,696 shares of common stock issued to employees at $2.50 a share under stock subscription plan	$ 14,544.00	
Premium on 1,355 shares of common stock sold to underwriter at $2.00 a share	1,355.00	
Premium on 80 shares sold to an employee at $2.50 a share	120.00	
Unused portion of reserve provided by predecessor company at July 31, 1937, for federal income taxes for the seven months ended at that date	1,235.93	17,254.93
BALANCE AUGUST 31, 1939		$219,347.13

EARNED SURPLUS (DEFICIT)

Balance at January 1, 1939	$149,919.82
Net loss for the eight months ended August 31, 1939	30,882.32
DEFICIT BALANCE AUGUST 31, 1939	$180,802.14

Profit and Loss Statement
THE NATIONAL TOOL COMPANY
Eight months ended August 31, 1939

Sales		$457,661.70
Less:		
Returns and allowances	$ 20,959.68	
Discount allowed	6,958.03	
Freight out	828.46	28,746.17
NET SALES		$428,915.53
Cost of products sold		353,448.40
GROSS PROFIT		$ 75,467.13
Expenses:		
Selling	$ 68,722.43	
Administrative	29,739.58	98,462.01
OPERATING LOSS		$ 22,994.88
Other deductions:		
Interest on funded debt	$ 8,000.00	
Interest on notes and accounts	889.32	
Amortization of bond discount and expense	2,042.32	10,931.64
		$ 33,926.52
Other income:		
Profit on sale of capital assets	$ 2,844.55	
Rent, etc.	199.65	3,044.20
NET LOSS		$ 30,882.32

Provision for depreciation included Cost of Product Sold and expenses above—$15,873.61